

INVESTING STRATEGIES

Policy stimulus, a weaker US dollar and rate cuts will drive Asia markets going into 2026: Eastspring

BY KWAN WEI KEVIN TAN
kevin.tan@bizedge.com

Markets in Asia will continue to grow in 2026, after defying expectations and climbing to record highs amid a year beset by trade tensions and uncertainty, says Vis Nayar, CIO of Eastspring Investments.

“The thing that we mustn’t forget is in 2025 to date, Asian markets have outperformed, and that’s a key metric to remember,” Nayar tells reporters during a media roundtable on Nov 25. “So undoubtedly, we have gone through a journey. As we reach the end of the year, markets are higher than they were at the start of the year.”

As 2026 approaches, policy-led opportunities will support major Asian economies, including China, India and Japan, while domestic measures drive growth across Asean. North Asia and Singapore will also benefit from the global build-out of AI infrastructure.

“Typically, long-term market flows tend to follow returns over time. So, in the last four or five years, returns have been strong in the US and the US has taken a lot of the capital flows globally as investors get that exposure,” Nayar says, noting that those flows have yet to be seen in Asian markets in 2025 despite their outperformance.

This is on top of the rate cuts that are likely to take place if the US dollar weakens in the coming year. Inflation in the US has been sticky in recent years, with inflation figures coming in higher than the Fed’s 2% target for 13 consecutive quarters.

“So, we have got an environment in the US, where you have got the Fed looking to cut rates, but with this high sticky inflation. We think that potentially leads to weakness in the dollar, and in

all our investment history, weakness in the dollar has been one of those prerequisites around emerging market performance,” Nayar says.

A weaker US dollar will give central banks in Asia more room for rate cuts. Usually, central banks would be concerned about the effect of rate cuts on their currencies, but a dollar weakness environment makes it easier for central banks to move ahead with them.

Ray Farris, chief economist of Eastspring Investments, says in Eastspring’s 2026 Market Outlook that the US will experience softer growth in the coming year, with GDP growth moderating to 1.6% in 2026, down from about 1.9% in 2025.

“The US Federal Reserve is likely to cut the Fed Funds rate by 25 basis points at its December 2025 or January 2026 meeting, and we expect another 50 basis points of cuts in 2026,” Farris says in a media release accompanying the release of the report.

According to Farris, Fed rate cuts will facilitate further policy rate cuts across Asia. Aside from Korea and Taiwan, inflation in other Asian countries is below both central bank targets and historic averages. This could lead to policy rate cuts in countries such as China, India, Indonesia, the Philippines and Thailand.

This is in addition to rising fiscal stimulus in the region. China’s GDP is expected to grow by 4.8% in 2026, down from an estimated 5% in 2025. This will be driven by investments in industries such as technology, transportation and biotechnology, as well as increased subsidies for domestic consumer goods and higher social welfare payments.

Similarly, India’s recent triple cuts to personal tax, GST and corporate tax will support growth. Nayar says: “India has always been a higher inflation



Vis Nayar, CIO of Eastspring Investments, says Asian markets have outperformed in 2025 and will remain resilient in 2026

economy. Inflation has fallen to levels that many domestic consumers have not seen. This really does give support for the central bank to cut rates and give further stimulus to the economy.”

India’s economy is expected to grow by 6.6% in 2026, down from Eastspring’s forecasted 6.8% growth in 2025. Farris expects India to strike a trade deal with the US in the following months to reduce its tariff rates. President Donald Trump had imposed a 50% tariff on most Indian imports on Aug 27, saying it was to punish India for buying Russian oil.

Likewise, for Japan, which Farris says is likely to reduce fuel taxes and raise their support for strategic industries like defence. Japan’s GDP is expected to grow by 0.7% in 2026, down from an estimated 1% in 2025. The country’s fiscal stimulus and continued growth in corporate capex will help offset a likely 25 basis point interest rate hike by the Bank of Japan.

US tariffs are unlikely to be a drag on markets in 2026, given that markets appear to have become a little bit more insulated to the noise from tariffs.

“The reactions are much more muted than they were six, nine months ago. We’ve got some evidence that the rhetoric is loud, but actually, there’s a bit of pragmatism between the US and China, and how they land some of these conversations. I think the markets have gotten used to that,” Nayar says.

While the US Supreme Court has yet to rule on the legality of President Donald Trump’s “Liberation Day” tariffs, Nayar says the court’s final decision is unlikely to affect the trajectory of markets. This is because a currency adjustment will probably take place, given that the Fed is likely to cut rates and inflation appears to be fairly sticky.

“Even if the tariffs don’t stick, or there’s something that adjusts the tariffs down, in practice, the currency probably is going to be an adjustment the other way. So that’s kind of an equilibrium,” Nayar says.

Think active

In terms of investing strategies, Nayar says it is important that investors take an active, rather than passive, approach when making moves in Asia. “When we talk about ‘Think Asia, Think Active,’ we are saying, don’t just expect to invest in an Asian index and expect to get that protection. You need to have a very differentiated portfolio construction or opportunities,” he says.

Fundamental investors should be thoughtful about the exposure they are getting from the tech index across names in Asia. Investors will be able to lower the correlation between their investments by having exposures in different countries and regions.

Specifically, investors should invest in pockets of the Chinese market, rather than the entirety of it. While investors

do want to get some exposure to China’s tech sectors because of the AI story, they will probably want to steer clear of the country’s property sector.

“We have gone through the data, which suggests that the housing under construction is six years’ worth of sales. And we also have this narrative that the use prices are still materially below new prices,” Nayar says of the Chinese market.

This results in an environment where consumption is no longer as gung-ho as it might have been in the past. Falling home values mean households will choose to focus on saving and building their wealth, instead of consuming.

India’s property market, by contrast, appears more attractive, supported by a multi-year cycle fuelled by rising middle-class wealth. “India is a very diversified economy. It has very little to do with AI, so as you build portfolios that have resilience and diversification, India becomes an important component of that,” Nayar says.

Where the opportunities are

Eastspring was one of nine asset managers appointed by the Monetary Authority of Singapore (MAS) to invest in locally listed stocks through its Equity Market Development Programme (EQDP), which seeks to strengthen the domestic equities market.

Besides Eastspring, Avanda Investment Management, Fullerton Fund Management, JP Morgan Asset Management, Amova Asset Management (formerly Nikko Asset Management), AR Capital, BlackRock, Lion Global Investors and Manulife Investment Management have also been appointed by MAS. \$3.95 billion out of the \$5 billion EQDP fund has been placed with the selected asset managers.

Daniel Lau, a portfolio manager for Eastspring Singapore, says in Eastspring’s 2026 Market Outlook that he remains optimistic for local equities. The Straits Times Index’s re-rating is driven by expectations of lower for longer interest rates, a stable Singdollar versus the US dollar and other emerging market currencies and an attractive dividend yield at about 5%, he adds.

Lau says a stronger US dollar due to a lower-than-expected rate cut by the Fed, higher-than-expected US GDP growth, and a deeper global economic slowdown are key risks to Singapore’s capital market activity.

Eastspring said in its statement on Nov 19 that its strategy “will be focused on income and growth opportunities by investing in Singapore equities, including small and mid-cap stocks,” but stopped short of revealing its target allocation.

“Eastspring is very fortunate to have a very well-established and mature Asean, Singapore-based investment team. That was really an important part of our proposition to the MAS and our ability to actually manage monies for these markets,” adds Nayar.

